

German Multi-Utility RWE AG 'AA-' Rtg Off CreditWatch;
Outlook Stable; Rtg Affirmed

S&P Removes RWE 'AA-' Rtg From Watch; Outlook Stable

LONDON (Standard & Poor's) Dec. 11, 2001--Standard & Poor's today removed its ratings on German multi-utility RWE AG and related entity RWE Finance B.V. from CreditWatch with negative implications, where they were placed on Sept. 17, 2001. At the same time, Standard & Poor's affirmed the double-'A'-minus long-term ratings on RWE and RWE Finance B.V., and the 'A-1'-plus short-term corporate credit ratings on RWE. The outlook on RWE is stable. (See list below for all rating actions).

The ratings on RWE reflect the group's strong business position as Germany's largest and one of Europe's largest vertically integrated electricity suppliers, and one of the world's largest water utilities. The ratings also reflect the company's still robust financial profile. These factors are offset by event-risk from further acquisitions and uncertainties about the ultimate impact of electricity market deregulation.

RWE's electricity and gas activities contribute about one-half of the group's operating earnings. The majority of earnings are derived from the vertically integrated (although unbundled) domestic electricity business. The company is also Germany's second-largest vertically integrated gas supplier. RWE (including minorities) directly or indirectly supplies more than 13 million customers in Germany with electricity, and (including minorities) supplies more than five million people with gas, mainly in the industrialized states of North Rhineland Westphalia and Rhineland Palatinate. However, activity in the national and cross-border wholesale and trading markets is also growing significantly.

Despite a challenging customer base, the company appears well placed to defend its market share, given its low marginal cost lignite power-generation capacity, and an ambitious cost-cutting program. Its market position is further underpinned by favorably regulated regional monopolies in transmission and distribution.

With the acquisition of Thames Water PLC (A+/Watch Pos/A-1), RWE is now the U.K.'s largest and the world's third-largest water utility. Thames Water's regulated water subsidiary serves a population of about 12 million in London and the Thames Valley, and the group serves a further 31 million people internationally.

RWE's increasing focus on and diversity in regulated utility products generally favors its business risk profile. Other core and fully owned activities include waste and recycling (RWE Umwelt AG) and decentralized energy supply and services (Harpen AG). Majority stakes in Hochtief AG (construction and engineering) and Heidelberger Druckmaschinen AG (printing machines), which are in highly competitive sectors, will be spun-off in the medium term, as will RWE DEA AG's downstream oil business.

RWE's financial profile has deteriorated owing to the impact of competition on the electricity market and the acquisition of Thames Water, but is expected to stabilize and remain robust. The company continues to generate substantial interest income on its liquid financial assets (€13.6 billion--\$12.0 billion--at 30 June, 2001), with which it offsets pension, nuclear, and mining provisions (€26 billion). Although its previous net cash position is now a net debt position, cash flow net interest coverage is expected to remain strong at almost 10 times. Substantial cash flows of €4.6 billion (in the financial year 2000-2001) are expected to increase, based on the assumption that competitive pressures in the domestic electricity market will ease, coupled with the effect of continued stringent cost-cutting measures, and a growing contribution from profitable water activities. The company's outstanding bid for American Water Works for an equity value of \$4.6 billion (expected to be finalized and funded in 2003) is expected to be entirely debt-financed but to still accommodate healthy financial debt-protection measures.

OUTLOOK:STABLE

The outlook is based on the expectation that RWE can maintain a robust financial profile, while exploiting growth opportunities, which strengthen its core activities. Following the acquisition of Thames Water and the bid for American Water Works, however, financial headroom at the rating level has been substantially reduced. The following factors could have a negative impact on the outlook or the ratings: further large scale acquisitions, financial policies that increasingly focus on the shareholder, more competition in the German electricity market, and a more challenging regulatory regime.

RATINGS OFF CREDITWATCH AND AFFIRMED; OUTLOOK STABLE

Ratings

	To	From
RWE AG		
Corporate credit ratings	AA-/Stable/A-1+	AA-/Watch Neg/A-1+

RATINGS OFF CREDITWATCH AND AFFIRMED

RWE AG

Senior unsecured debt ratings

AA-

AA-/Watch Neg

RWE Finance B.V.

Senior unsecured debt ratings*

AA-

AA-/Watch Neg

*Guaranteed by RWE AG

Contact: Amrit Gescher, London (44) 20-7826-3733

Anthony Flintoff, London (44) 20-7826-3874

Ralf Etzelmueller, Frankfurt (49) 69-138709-7181